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**Health Services Cost Review Commission**

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**MEMORANDUM**

**TO:** Kevin McDonald, Chief - CON, MHCC

**FROM:** Katie Wunderlich, Executive Director, HSCRC  
Gerard J. Schmith, Director of Revenue and Compliance, HSCRC

**DATE:** December 23, 2019

**RE:** Johns Hopkins Bayview Medical Center  
Campus Renovation – New Inpatient Building and Renovation Project  
Docket No. 18-24-2430 2414 pp

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On January 14, 2019, you requested that we comment on the Certificate of Need (CON) application of Johns Hopkins Bayview Medical Center (Bayview or JHBM) application proposal to construct a new inpatient building (NIB) of approximately 408,000 SF and renovating approximately 62,000 SF of two other buildings on the campus. There is also a parking garage included in the campus renovation, which is not part of the CON review.

The primary goals of the proposed project are: to transition to all private patient rooms, and to modernize and upgrade JHBMC's outdated facilities, these are objectives that JHBMC states is "essential to the long-term viability of JHBMC," and that "not proceeding with this project will put key services in jeopardy...and...threaten JHBMC's ability to maintain its central role as an academic medical center, pursuing excellence and innovation in health care delivery, education, and discovery."

Bayview defined six project objectives to accomplish these goals:

- Maximize number of private patient rooms in medical/surgical units;
- Maximize inpatient activity in modernized space;
- Maximize number of critical care patients in modernized space;
- Right-size inpatient units to accommodate current operational models;
- Maximize opportunities for improved operational efficiency and patient experience;
- Optimize materials flow and distribution.

This project's estimated total capital costs are \$468,852,000. Bayview anticipates funding the project as follows:

- \$105.5 million in cash;
- \$27.0 million in grants from the State of Maryland;
- \$48.0 million in philanthropy coordinated through the Fund for Johns Hopkins Medicine;
- \$245.6 million in debt which has already been issued by the Johns Hopkins Health System, to be available immediately to Bayview upon commencement of the project, at which time the Bayview will assume the related debt service; and
- \$60 million in working capital loans.

The parking garage is estimated to cost approximately \$28.3 million which will be funded by the Johns Hopkins Medical Institutions Parking System and will not be the responsibility of Bayview.

Bayview stated at the time of its application that it planned to pursue a partial rate application or Global Budget Revenue (GBR) modification with the Health Services Cost Review Commission (HSCRC) to fund the incremental depreciation and interest costs of the project.

MHCC requested that HSCRC staff review the financial projections provided in the CON application and subsequent filings, and advise MHCC whether the project is financially feasible. MHCC staff believed that the utilization projections presented in the application were reasonable, and that it was reasonable to assume that Bayview will achieve these projected volumes.

You also requested that we review and comment on any other aspects of this application pertinent to this request.

Previously, we notified you that we could not comment on any project that contained a large GBR revenue increase, if a hospital had not filed an application requesting a review of the project and an adjustment to its GBR revenue. At that time, Bayview had not filed any application.

July 9, 2019, Bayview filed a full rate application requesting a \$60.2 million increase to its GBR revenue. Of this amount, \$31.3 million was earmarked for the depreciation and interest on this project. The remaining \$28.9 million was to provide additional operating support. On July 23, 2019, HSCRC staff sent a letter to Bayview requesting additional information regarding the application. At that time, the application was not docketed.

On October 15, 2019, the Hospital provided responses to the staff's questions, and the application was then docketed. Since that time, HSCRC staff has been reviewing the application. While the review has not been completed, HSCRC wanted to provide you with our current view of the project based on our work to date.

At this time, the HSCRC staff would recommend approximately \$6.1 million for additional capital with no additional dollars in support of operations. Based on these factors, the staff has reviewed the financial projections provided by Bayview as part of the CON application and

would have the following comments.

Staff made two adjustments to the projections provided. First, staff updated the projected financial data for FY2018 and FY2019 with actual data from Johns Hopkins Health's Audited Financial Statements. Second, Staff removed the \$30.3 million included in FY2023 and included the \$6.1 million based on our current proposed methodology. All other assumptions remained the same.

The resulting change to JHBMC's projections are shown on Attachment I. As one can see, the Actual Operating Profits for FY2018 and FY2019 were \$8.4 and \$7.9 million respectively, compared to the Projected Operating Profits of \$10.0 and \$22.5 million respectively. The Actual Operating Margins were 1.34% and 1.22% compared to the Projected Operating Margins of 1.58% and 3.50%. The Projected Operating Profits and Margins were 1.20% for each year from FY2020 to FY2022 based on Bayview's expected changes in revenues and expenses.

The additional adjustment to FY 2023, removing \$30.3 million and adding \$6.1 million, changed the Projected Operating Profit and Margin to a **loss** of (\$11.6 million) and (1.61%).

Based on these changes, HSCRC staff questions the financially feasible of this project as it now stands.

If you have any questions, please do not hesitate to contact me.

CC: Paul Parker, MHCC